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SUBJECT: TURKEY,S HOUSING MARKET BRACES FOR 2008

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[1](#)1. (U) Summary: Attendees in Istanbul at the annual meeting of the Association of Real Estate Investment Companies (GYODER) were pessimistic about the housing market in Turkey. Both external and internal problems have doused the red-hot Istanbul real estate market to a degree where even some optimists are calling 2008 a "lost year" for Turkey. According to some of the speakers, the timing of the real estate slowdown was unfortunate, since it came just as the mortgage industry was about to "take off" in Turkey. End Summary

Economic Conditions Dragging Down a Solid Housing Market

[1](#)2. According to the speakers at the annual meeting of the Association of Real Estate Investment Companies (GYODER) held last month in Istanbul, the real estate market will face a downturn in Turkey this year. The speakers pointed to mostly external problems, primarily the sub-prime lending crisis and increased energy costs, as the cause of Turkey's economic woes. Bulent Gultekin from the University of Pennsylvania Wharton School criticized the U.S. for exporting inflation to the rest of the world, which he cited as a major factor for the increasing energy costs. Gultekin stated the U.S. housing crisis will eventually hit the Turkish real estate market, yet the Turkish economy is more stable today and can better weather the storm compared to the last economic crisis in 2001. Gultekin did caution that Turkey faces "huge uncertainties ahead".

[1](#)3. Many observers noted the strengths of the real estate market in Turkey, yet even the optimists agreed the current crisis will drag down the growing market. Professor Vefa Tarhan from Loyola University in Chicago was upbeat about the future prospects for Turkey, yet he called 2008 a "lost year" and thinks the problems will likely continue until 2010. Akin Tuzun, head of Citibank's Turkish Equity Research Group, provided evidence of a slowdown of foreign investments to Turkey; however, portfolio investments were hit hardest while long-term real estate investments only dipped. Tuzun stated the appetite for real estate investment appeared strong; yet rising inflation and interest rates will push home ownership outside the reach of many Turkish families. Nearly all the participants at the GYODER conference cited rising interest

rates as the primary culprit as inflation returns to double digits for the first time since 2004 (reftel A).

Wanted: FDI in Turkish Real Estate

¶4. Foreign investments into Turkish real estate are lagging, compared to other sectors. According to Tuzun, FDI real estate investment in Turkey today comprises only 17 percent of total FDI investment, compared to over 80 percent in 2003.

While the total dollar amount has nudged up since 2003, the growth of capital FDI in Turkey, namely privatization, has greatly outperformed real estate. Tuzun noted Turkey lags well behind other European nations for FDI in real estate. In 2007, Turkish real estate attracted about 3 billion USD of FDI. Tuzun said this is less than one-half of one percent of its GDP, a very low amount compared to Greece, Spain, Portugal and other European countries. Tuzun thinks that total FDI in real estate should increase since Turkey needs to bring in more money to correct its balance of payments. According to Tuzun, real estate, along with other long term FDI is a preferred form of investment since it cannot easily flee the country. In contrast, short-term portfolio investments can quickly be withdrawn, possibly exacerbating an economic crisis.

Bad Timing for Mortgage Industry in Turkey

¶5. Most observers lamented the timing of the current economic slowdown, occurring just when Turkey's mortgage industry was maturing. Terhan stated mortgages were now becoming available for many Turks, allowing thousands to

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achieve home ownership. Terhan noted the real estate sector was about "ready to take off," until the recent crisis occurred. According to Turkish Housing Expert Haluk Sur, home mortgages were nearly non-existent in 2001, slowly grew until 2004, and then shot up rapidly in 2005 and 2006. Despite the dramatic increase of mortgages, Turkey still falls short, according to Sur. Consumer home mortgages only account for four percent of Turkey's GDP, compared to over 50 percent in the US and about 40 percent in European countries.

¶6. Sur points out the drop in interest rates was a significant reason for the growth of the mortgage industry. Few Turks financed their homes in 2001 when interest rates were at 66 percent; however rates less than 12 percent attracted many home buyers in 2005 and since then rates generally have stayed below 20 percent. These rates were relatively low, yet they do deter home buyers from taking out long term loans, opting instead for contracts of no more than six years' term, according to the Banks Association of Turkey. Alexander Batchvarov from Merrill Lynch said additional mortgage products should be introduced to Turkey, allowing a greater slice of the public to gain home ownership through borrowing. Home loans make up less than half of all consumer loans in Turkey, according to the Banks Association. In contrast, home loans make up the lion's share of consumer debt in the U.S.

¶7. Legal reforms have also recently assisted the mortgage industry. The Mortgage Law (reftel B) which is now gradually being implemented, provides stronger legal framework for those wanting to purchase land on terms other than cash up front. Moreover, according to press reports, parliament is currently drafting a bill to allow primary mortgage lenders to sell their mortgages, thus creating a secondary mortgage market.

¶8. Parliament passed a law July 3 permitting the purchase of real estate by foreigners in response to two constitutional court rulings which prohibited foreigners from purchasing

land in Turkey (reftels C & D). The new law allows foreigners to own up to 10 percent of the total land in a sub-provincial administrative unit of varying sizes. Foreign citizens and companies, however, will still be restricted from owning land in areas protected for security, environmental, cultural, or religious reasons. Opposition Republican People's Party (CHP) deputies, who led the charge to overturn previous laws that eased restrictions on foreign ownership of land, have criticized the current law; a sign they may bring the matter again to the courts.

Comment

19. (SBU) Double digit inflation and mortgage interest rates over 20 percent will stifle the Turkish real estate market, ending the impressive gains made over the past few years. The timing of this slowdown will hit the mortgage industry just as it is beginning to mature. Recent legal reforms will not likely adequately offset the negative economic realities facing the housing market.

WIENER